

Message Text

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ACTION EUR-12

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SUBJECT: U.S.-CANADIAN DISCUSSIONS ON OIL EXCHANGES

1. U.S. AND CANADIAN DELEGATIONS, LED BY KATZ FOR U.S. AND HOPPER (DEPUTY ASSISTANT MINISTER, EMR) MET JUNE 18 TO CONSIDER PROGRESS AND REPORT OF JOINT TECHNICAL WORKING GROUP CO-CHAIRLED BY PRIDDLE (EMR) AND MALIN (FEA).

2. WE REVIEWED 8 ALTERNATIVE EXCHANGE OPTIONS PRESENTED IN THE REPORT OF THE WORKING GROUP AND THE COSTS AND BENEFITS TO EACH SIDE FOR EACH ALTERNATIVE.

3. HOPPER INDICATED THAT CANADIAN POLITICAL CONCERNS AND A DESIRE TO ENSURE THE ECONOMIC VIABILITY OF THE SARNIA-MONTREAL PIPELINE RECENTLY APPROVED BY GOC HAD LED CANADIANS TO CONCLUDE THAT THE MOST DESIRABLE EXCHANGE ARRANGEMENT FROM CANADIAN POINT OF VIEW WOULD INVOLVE MOVEMENT OF U.S. DOMESTIC CRUDE TO MONTREAL REFINERIES THROUGH THE NEW PIPELINE IN EXCHANGE FOR SUPPLIES OF CANADIAN CRUDE TO U.S.

NORTHERN TIER. KATZ, NOTING THAT NORTHERN TIER REFINERS

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MAY NOT HAVE ACCESS TO U.S. DOMESTIC CRUDE AND FACT

THAT ALL INCREMENTAL CRUDE SUPPLIES FOR U.S. ARE FOREIGN, ASKED THAT GOC NOT FORECLOSE POSSIBILITY OF EXCHANGING CANADIAN CRUDE FOR OFFSHORE CRUDE. HOPPER INDICATED THAT GOC WOULD NOT FORECLOSE THIS OPTION AND INFERRED READINESS TO CONSIDER, IN ADDITION, POSSIBLE MOVEMENT OF U.S. CRUDE FROM GULF COAST BY TANKER TO PORTLAND.

4. THERE WAS ALSO EXTENSIVE DISCUSSION OF POSSIBLE EXCHANGE PARAMETERS FOR WEST-COAST REFINERIES IN PUGET SOUND AREA. CANADIANS HAVE CONCLUDED THAT EXCHANGES HERE WOULD BE LIMITED TO CAPACITY VANCOUVER REFINERIES, I.E., 150 MBD. THIS PRESUMES THAT TRANS-MOUNTAIN PIPE-LINE WOULD CASE OPERATION. REVERSAL OF TRANS-MOUNTAIN WOULD PERMIT U.S. TO PUT THROUGH ADDITIONAL 300 MBD ALASKAN OIL TO THE NORTHER TIER REFINERS. HOWEVER, INVESTMENT COSTS INVOLVED IN REVERSAL OF PIPE-LINE AND REVAMPING REFINERIES TO RUN HEAVIER ALASKAN CRUDES WOULD BE SUBSTANTIAL, ALTHOUGH TRANSPORT ECONOMIES WHICH WOULD BE ACHIEVED ARE LARGE. KATZ POINTED OUT THAT FLOW OF ALASKAN OIL TO PUGET SOUND REFINERIES IS PROBABLY INEVITABLE. HE NOTED THAT DECISION AT THIS TIME TO FORECLOSE REVERSAL OF TRANS-MOUNTAIN PROBABLY WOULD PRECLUDE SUBSEQUENT DECISION TO USE THIS SYSTEM FOR MOVING ALASKAN OIL TO THE MIDWEST. FOR THIS REASON, WE ARE RELUCTANT TO SET ASIDE THE TRANS-MOUNTAIN REVERSAL OPTION AT THIS TIME. KATZ ALSO NOTED THAT U.S. DECISION TO ALLOCATE CANADIAN CRUDE WILL PROBABLY REQUIRE ALLOCATION OF ALL CANADIAN CRUDE, INCLUDING 22 PERCENT NOW SET ASIDE BY GOC FOR WEST COAST REFINERIES. IN THIS CONNECTION, HE NOTED THAT U.S. PUGET SOUND REFINERIES DO HAVE ALTERNATIVE SOURCES OF SUPPLY.

5. THE TWO SIDES CONCLUDED THAT DISCUSSIONS BETWEEN GOVERNMENTS AND WORKING GROUP EFFORTS HAVE GONE ABOUT AS FAR AS POSSIBLE WITHOUT DIRECT, DETAILED CONTACTS BETWEEN COMPANIES WHICH WOULD BE INVOLVED IN POSSIBLE EXCHANGE ARRANGEMENTS. KATZ PROPOSED, AND CANADIANS AGREED, THAT NEXT STEP SHOULD BE DIRECT CONTACT BY LIMITED OFFICIAL USE

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EACH GOVERNMENT WITH REFINERIES INVOLVED. HOPPER INDICATED CANADIANS PREPARED TO SEND LETTER TO TORONTO AND MONTREAL REFINERIES, NOTING GOC WILLINGNESS TO MAKE EFFORT TO ACCOMMODATE CANADIAN DEPENDENT REFINERIES IN U.S. AND URGING THEM TO CONSIDER CAREFULLY ANY PROPOSALS FOR OIL EXCHANGES MADE BY U.S. COMPANIES. U.S. INDICATED ITS BELIEF THAT NEXT STEP ON OUR SIDE WOULD BE SIMILAR, INVOLVING DIRECT CONTACT WITH ABOUT 65

U.S. REFINERIES WHICH HAVE USED CANADIAN CRUDE. KATZ ALSO SAID U.S. INTENDED TO ISSUE STATEMENT DESCRIBING PROGRESS MADE THUS FAR AND WILLINGNESS OF TWO GOVERNMENTS TO FACILITATE EXCHANGE AND REMOVE ANY FISCAL, LEGAL OR OTHER IMPEDIMENTS WHICH MIGHT PREVENT THEM. IT WAS AGREED THAT BOTH SIDES WOULD PREPARE STATEMENTS WHICH WE WOULD DISCUSS THIS WEEK.

6. KATZ ALSO INDICATED BOTH GOVERNMENTS SHOULD CONSIDER MAKING JOINT STATEMENT CONCERNING READINESS OF GOVERNMENTS TO FACILITATE EXCHANGES WHICH MIGHT SUBSEQUENTLY SERVE AS BASIS OF INTERGOVERNMENTAL AGREEMENT TO THIS EFFECT. HOPPER INDICATED THAT GOC WOULD PREFER NOT TO HAVE A JOINT COMMUNIQUE AT THIS TIME BUT IS PREPARED TO CONSIDER THIS IDEA.
PORTER

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